

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00
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R 241638Z AUG 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 8464
INFO ALL EC CAPITALS
USMISSION GENEVA
AMCONSUL TURIN

LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 16213

USEEC

PARIS ALSO FOR OECD

DEPARTMENT PASS TREASURY - OFFICE OF TARIFF AFFAIRS AND
US CUSTOMS/OFFICE OF CHIEF ECONOMIST AND SPECIAL STEEL
TASK FORCE

E.O. 11652: N/A
TAGS: EEC, ETRD, EIND
SUBJECT: STATUS OF EC STEEL PLAN

REF: (A) BRUSSELS 12733, (B) BRUSSELS 14720,
(C) BRUSSELS 13868

1. SUMMARY: IN THE FACE OF CONTINUED STAGNATION OF THE
EUROPEAN STEEL INDUSTRY, PRODUCERS AND EC OFFICIALS ARE
TAKING STEPS TO PREVENT FLAGRANT ABUSES OF THE DAVIGNON
STEEL PLAN. A RECENT MEETING OF EUROPEAN STEEL PRODUCERS
RESULTED IN RENEWED PLEDGES TO MAINTAIN DISCIPLINE ON
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PRODUCTION AND PRICES, MORE ADMINISTRATIVE COORDINATION BY
EUROFER, THE STEEL PRODUCERS ASSOCIATION, AND A DECISION
TO SET UP A DATA BANK TO MONITOR TRANSGRESSIONS OF THE
DAVIGNON PLAN. STEEL PRODUCERS AND COMMISSION OFFICIALS
FORESEE NO DRAMATIC IMPROVEMENTS OF THE STEEL MARKET AND
FOURTH QUARTER DELIVERIES SHOULD BE ONLY marginally HIGHER
THAN THE NORMALLY SLOW THIRD QUARTER. END SUMMARY.

2. TOP OFFICIALS IN EUROPE'S STEEL COMPANIES MET IN BRUSSELS AUGUST 22 UNDER THE AUSPICES OF THE EUROPEAN STEEL PRODUCERS ASSOCIATION (EUROFER) TO TRY TO REINFORCE DISCIPLINE UNDER THE DAVIGNON STEEL PLAN. EUROFER TRADE DIRECTOR VIVIAN EVANS TOLD MISSION OFFICER THE MEETING CAME ABOUT AS A RESULT OF A NEED TO COUNT HEADS AND GET PERSONAL ASSURANCES FROM EACH OTHER THAT THE DAVIGNON PLAN RULES WOULD BE RESPECTED. THE EUROFER MEETING ALSO CONSIDERED POSSIBLE MEANS OF ENFORCEMENT, SUCH AS INCREASED POWERS FOR EUROFER AND A MORE EFFICIENT DATA SYSTEM. MEMBERS AGREED THAT EUROFER PRESIDENT JACQUES FERRY AND HIS FOUR VICE-CHAIRMEN SHOULD BEGIN MEETING ON A MORE FREQUENT BASIS (EVERY TWO WEEKS) AND THAT A HIGH STEEL OFFICIAL FROM A EUROFER COMPANY (MOST LIKELY GERMAN) SHOULD BE CHOSEN TO ACT AS DAY-TO-DAY EXECUTIVE VICE-PRESIDENT OF EUROFER AND "JAWBONE" THE VIOLATORS. THEY ALSO DISCUSSED THE IDEA OF A CENTRAL DATA BANK FOR STEEL, LOCATED IN THE EC COMMISSION AND DESIGNED TO PROVIDE INSTANT INFORMATION AND GUIDANCE TO CUSTOMS OFFICIALS, ETC., BUT SEVERAL PROBLEMS OF MANAGEMENT AND FINANCING WERE RAISED AND EUROFER IS NOW REPORTED TO BE CONSIDERING USING COMPUTER FACILITIES OF ONE OF ITS MEMBERS. THE OPERATION, WHICH EUROFER HOPES WILL ALSO INVOLVE DATA ON NON-EUROFER MEMBERS, WILL ENABLE EUROFER TO CONTINUALLY COMPARE DELIVERY VOLUMES AND PRICES OF COMPANIES WITH LIMITED OFFICIAL USE

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DAVIGNON PLAN GUIDELINES. EUROFER EXPECTS THIS WILL ELIMINATE MUCH OF THE MORE FLAGRANT ABUSE. MEANWHILE EUROFER WILL ALSO PRESS FOR MORE INFORMATION EXCHANGE BETWEEN STEEL COMPANIES AND NATIONAL OFFICIALS.

3. EUROFER ALSO DECIDED TO ASK THE COMMISSION TO INCREASE ITS VIGILANCE OVER NON-EUROFER MEMBERS WHO HAVE IMPORTANT MARKET POWER IN SOME ITEMS SUCH AS PLATE.

4. ACCORDING TO EC COMMISSION AND EUROFER OFFICIALS, THE THREAT TO THE DAVIGNON PLAN IS STILL PRESENT. WHILE RESPECT FOR DELIVERY GUIDELINES AND MINIMUM PRICES HAS NEVER BEEN VERY GOOD, IT WAS AT LEAST AT A TOLERABLE LEVEL AT THE BEGINNING OF THE YEAR. THEN IN EARLY SPRING WHEN THE MARKET SHOWED SIGNS OF HALTING ITS BACKWARDS SLIDE, PRODUCERS BECAME OVERLY OPTIMISTIC AND BEGAN TO BREAK THE RULES WITH INCREASING FREQUENCY, ESPECIALLY WHEN IMPORTS FROM EFTA COUNTRIES, WHICH ARE NOT SUBJECT TO QUANTITY RESTRICTIONS, BEGAN TO GROW RAPIDLY. COMMISSION OFFICIALS SAY THE BLUNT WARNINGS DAVIGNON GAVE TO STEEL PRODUCERS IN JULY (REF B) MAY HAVE STOPPED A SITUATION WHICH WOULD SOON HAVE GONE OUT OF CONTROL AND RUINED THE EC STEEL

MARKET. THIS HAS BEEN FOLLOWED UP WITH NEW MEASURES TO STRENGTHEN THE PLAN (SUCH AS THE GUARANTEE SCHEME - SEE REF A) AND WITH ADDITIONAL FINES ON TRANSGRESSORS OF THE MINIMUM PRICE RULES.

5. IN AN EFFORT TO MAINTAIN THEIR CREDIBILITY WITH THE LARGER STEEL PRODUCERS THE COMMISSION RECENTLY ANNOUNCED FINES AGAINST FIVE NORTHERN ITALIAN COMPANIES GUILTY OF VIOLATING MINIMUM PRICES FOR REINFORCING BARS AND MERCHANT BARS:

ACCIAIERIE E FERRIERE STEFANA ANTONIO S.P.A., BRESCIE -
47,606 EUA
ACCIAIERIE FERRERO S.P.A., TURIN - 655 EUA
SIDER CAMUNA S.P.A., BERZO INFERIORE (BRESCIA) -
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52,885 EUA
ACCIAIERIA DE DARFO S.P.A., BOARIO TERME (BRESCIA) -

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US CUSTOMS/OFFICE OF CHIEF ECONOMSIT AND SPECIAL STEEL
TASK FORCE

26,054 EUA

FERRIERE ONGARI S.R.L., MARMIROLO (MANTOUE) - 923 EUA.

THE COMPANIES HAVE PROTESTED THAT THEY ARE BEING UNFAIRLY
DISCRIMINATED AGAINST BECAUSE THEY ARE MORE EFFICIENT AND
CAN OPERATE PROFITABLY AT PRICES BELOW THE DAVIGNON PLAN
LEVELS.

6. THE COMMISSION EXPERTS PREPARING THE FOURTH QUARTER
FORWARD PROGRAM FOR STEEL PRODUCTION AND DELIVERY SAY
THAT IT IS TOO EARLY TO KNOW HOW THE MARKET WILL LOOK IN
THE FALL BUT NO DRAMATIC IMPROVEMENTS ARE EXPECTED.
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ORDERS WILL PROBABLY BE UNEVEN WITH CONSTRUCTION ORDERS
CONTINUING TO SHOW GOOD RESULTS, WHILE HEAVY PLANT AND
MACHINERY ITEMS STAGNATE. IN ADDITION, EXCESS PRODUCTION
AND STOCKING IN THE THIRD QUARTER WILL DEPRESS FALL ORDER
LEVELS. THE RESTRUCTURING EFFORT OF THE COMMISSION IS
GOING SLOWLY AND HAS BEEN HAMPERED BY THE NEED TO
ACCOMMODATE SOCIAL INTERESTS IN THE PROCESS (REF C).
COMMISSION OFFICIALS ARE NEVERTHELESS BUOYED BY THE FACT
THAT INDUSTRY SEEMS TO BE READY TO RESTRUCTURE ON ITS OWN
AND IS NOT REALLY WAITING FOR A COMMISSION PROGRAM.
EUROFER OFFICIALS VIEW THE AUTUMN "RENTREE" AS CRUCIAL.
IF ORDER BOOKS SHOW AT LEAST SOME POSITIVE SIGNS AFTER
THE VACATION PERIOD, DISCIPLINE WILL BE MUCH EASIER TO
MAINTAIN.

7. CURRENT EXPECTATIONS IN THE STEEL DIVISION OF THE
COMMISSION ARE THAT THE FOURTH QUARTER FORWARD PROGRAM,
DUE IN EARLY SEPTEMBER, WILL CALL FOR SOMETHING JUST OVER
THE 29 MILLION TON TARGET FOR THE USUALLY SLACK THIRD
QUARTER. THIS WOULD BE A COMPROMISE BETWEEN THE COMMIS-
SION'S ORIGINAL DESIRE TO SET DELIVERY TARGETS AT
27 MILLION TONS AND EUROFER'S DEMAND FOR A 31 MILLION TON
TARGET.

8. FOR THE FIRST TIME THESE QUARTERLY FORECASTS WILL
BREAK DOWN DELIVERY BY DOMESTIC AND EXPORT MARKET.
COMMISSION STEEL OFFICIALS SAY THE PREVIOUS PRACTICE OF
ONLY SPECIFYING INTERNAL EC DELIVERY TARGETS LED TO
ATTEMPTS TO DUMP ON FOREIGN MARKETS, WHICH IN FACT HAD A
DEPRESSING EFFECT ON EC PRICES. IF THE 29 MILLION TON
FIGURE IS CHOSEN, THE SPLIT WILL BE 22 MILLION TONS FOR

THE EC MARKET, 7 FOR EXPORT. HINTON

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